



SF t1ps Smaller Companies Gold Fund

Newsletter - Issue 18
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Gold slips but story unchanged

As I write gold is off \$25 on the day and is now \$80 off pre Christmas levels. Silver is down by a similar margin. This has clearly hit mining valuations although your fund has held up better than most gold funds. But are we panicked? Should you panic? There will be no shortage of those saying the gold boom is over. Those are also the folks who said it was over at \$1000 and \$800! But the story does not change. In every bull market there are always pullbacks. Days when folks worry over something. Days when the smart folks buy quality shares rather than selling anything that moves.

Last year our confidence in our stock selection saw us return 127% to Unit Holders (Source: Financial Express 31/12/10) and we are optimistic for 2011, albeit past performance is not an indicator of future returns. We would also draw your attention to the important risk warning at the bottom of this newsletter.

Looking forward we see real value in our portfolio at \$1,345 Gold but the key defining aspect for 2011 is that we expect Gold, and Silver, to push far higher in turn rerating the whole sector. And this is why...

Gold continues to be viewed by some as a commodity. We however, view it to be a currency, more importantly the World's currency. In the current economic climate an intelligent investor must ask; which currency do I feel confident holding my wealth in? The Dollar dominates the World financial markets and in recent weeks the mainstream financial press have released superficially positive announcements in regards to factory output or growing GDP (in the case of GDP it is government spending in the US which is propping up the economy). What continues to be missed is that the Dollar has, we believe, entered a critical state of decline. Unemployment in the US is, if measured by the same means as in the Great Depression, at roughly 23%, or 1 in 4. This is the same as the huge fall out in the 1930s. The dollar rose today on news that only 404,000 Americans (rather than the expected 422,000) signed on as new unemployed last week. What that figure does not show is how many are unemployed but not signing on as they have stopped getting benefits.

The key issue however is the US administration's massively unsustainable debt. Current estimates of \$14 trillion (a huge sum in itself) completely understate the real burden, with off balance sheet liabilities (Medicare and Social) simply not accounted for. The strategy of the Fed is to whittle away at the real value of the country's debt through debasement of the Dollar through Quantitative Easing, justified as a means of stimulating the economy into producing an increased number of jobs. This is failing badly!

With an abundance of new Dollars being essentially pushed into circulation, inflation in the US will inevitably ensue. This is what we are currently seeing in the UK. What must be asked by an astute investor is; do I feel confident with holding my hard earned savings and wealth in a currency that over the past ten years has been in constant decline and will continue to depreciate further?

The alternatives to the Dollar are not much better. The Euro is, in our opinion, utterly up merde creek. Recent Bond sales were said to be successful but what failed to be mentioned was that one of the main bidders was the ECB, with China propping up the debt sales hoping to be given some leeway on the arms embargo. We envisage a breakup of the Euro sooner rather than later as structurally the dynamics of a unified monetary policy across disparate economies are flawed. There of course is the Pound? But the UK currently has an inflation issue with higher rate taxpaying savers currently needing returns in excess of 6% outside of an ISA to just maintain the value of their wealth. Another further option is either the Chinese Renminbi or the Indian Rupee. These currencies are in essence the currencies of tomorrow but today there is still a major level of caution associated with investments into these

emerging economies. This therefore leaves only one real option.

Gold and Silver are finite and their supply is materially inelastic. Despite huge amounts of investment into exploration and asset development the World's supply of Gold, and Silver continues to decline. South Africa's Gold production was last year approximately 50% lower than nine years earlier, with the average Gold grades recorded down from roughly 12g/t in 1950 to the current 3g/t. The key fundamental justification for us moving into 2011 is that whilst all other currencies across the Globe each have their own individual ongoing issues and troubles (some worse than others) Gold and Silver simply are the only place that wealth can be stored to secure its value. We however aim to simply not just secure wealth but deliver some serious capital growth via astutely selected mining stocks.

At current prices the team have looked over the position of our portfolio and we are very excited about the year ahead. The fall back in Gold and Silver prices has allowed us to snap up some real bargains recently. We have over the past few months been buying **Hambledon Mining, Vatukoula Gold Mines, Kryso, Ovoca Gold, Conroy Diamonds & Gold, Ariana, Goldplat, and Norseman Gold**. Although predominantly Gold focused we are however currently over weight in Silver (for obvious reasons) and have recently been buying up much more; **Silver Wheaton** (see commentary below), **First Majestic Silver**, and **Great Panther Silver** (note attached), plus one new, and rare, addition to the Fund, **Kootenay Gold**. We cover Kootenay and why we have invested in a new holding in the companies commentary section below.

So, looking forward we believe that we could not be in much more of a better position than we are at present. We see great value at the moment at \$1,345 Gold and will continue to buy and then hold for the eventual valuation rerating which will occur once Gold pushes back through the \$1,400 threshold and onwards. The whole team at T1ps Investment Management would therefore like to once again thank our unit holders for the continued support which allows us to fully take advantage of the opportunities that the vagaries of the Market present to us. We are very excited about the year ahead and like 2010, we seek to bring you another year of capital growth.

Robert Sutherland-Smith & Ross Jones

If you have any questions about investing in the SF t1ps Smaller Companies Gold Fund or if you want a simplified prospectus and an application form please visit **our website at www.t1psim.com or email goldfund@t1psim.com**

Total return, bid to bid line chart from 11/09/2009 to 19/01/2011 from UKUT and OEICs Universe



	1m	3m	6m	1y	3y	5y
SF t1ps Smaller Companies Gold Fund	-6.2	+36.0	+104.1	+110.8	n/a	n/a
Specialist	-1.5	+2.6	+11.1	+14.7	+18.1	+31.0

The Fund was launched in September 2009 and 3-year and 5-year performance results are not available.

Source: Financial Express

Past performance is not a reliable indication of future results

How to Buy Gold Fund Units

1. Contact your broker. Most brokers offer the chance to buy units although few can match our initial rate of 2.5%. But call your broker and give him the fund's SEDOL code: **B3 YQ 855**. If your broker will not deal please call Spiros Kurtidis on 0207 562 3386 and he will try to rectify the situation.

2. Deal through t1ps and The Share Centre at the initial fee rate of 2.5%. If you want an application form email goldfund@t1psim.com or go to www.t1psim.com

3. Once you have made an initial investment (of as little as £500) you can set up a monthly standing order with The Share Centre to drip feed further cash (as little as £25 a month) into the fund. All existing fund holders can set up such an order.

If you have any questions about investing in the SF t1ps Smaller Companies Gold Fund visit our website at www.t1psim.com or contact 0207 562 3386

Fund Information	
Size:	£23,338,162.99 (20/01/11)
Launch date:	24 July 2009
Launch price:	£1.00
Current Yield:	0.00%
Legal Status:	OEIC
Annual Management Fee:	1.5%
Initial Charge:	5.25%
Minimum lump sum Investment:	£500.00
Minimum monthly investment:	£25.00
Sedol Number:	B3YQ855
Unit offer price:	Single Priced Fund Last Dealt Price: 240.08p (20/01/11)
Unit bid price:	As Above

Top 10 Holdings

Stock Name	Fund %
Vatukoula Gold Mines	8.10
Hambledon Mining	7.16
Great Panther Silver	5.46
Ascot Mining Warrants	5.35
Ascot Mining	4.57
Athol Gold Ltd	4.30
Norseman Gold	4.02

Angel Mining	3.90
Jubilee Platinum	3.46
First Majestic Silver	3.41

The Deadline is April 5th to shelter this year's gains from tax - do not miss out on your allowance!

What we are talking about are ISAs - a wrapper to protect your savings from capital gains tax *. You have until April 5th this year to use up your ISA allowance. You also have until the same day to use your annual SIPP contribution allowance.

We hope that you will use your ISA allowance buying shares in the SF t1ps Smaller Companies Gold Fund.

But whatever you use it for - use it. Don't lose it.

An ISA is not an investment. It is a shelter in which you can stick investments to avoid Capital Gains Tax. You can stick in £10,200 this year. As such it is an ideal wrapper for those investments where you might expect capital growth such as the SF t1ps Smaller Companies Gold Fund. It really should be the cornerstone of EVERYONE's portfolio. Even so, around two-thirds of consumers are not planning to make use of this valuable tax break. **Don't be one of them.**

Are ISAs right for me?

Stocks & Shares ISAs involve taking higher risks (as investments can fall in value) however over the longer term they should have the potential to produce higher returns. This tax year you will be able to invest up to £10,200 in a Stocks and Shares ISA. Please remember that the tax treatment depends on the individual circumstances of each investor and may be subject to change in the future.

So whatever you actually use your ISA allowance on you SHOULD USE IT and time is running out. Naturally we hope that you invest your ISA in shares of the SF t1ps Smaller Companies Gold Fund - remember to take advice if you're unsure whether these are suitable for you.

If you have any questions about investing in an ISA in the SF t1ps Smaller Companies Gold Fund email goldfund@t1psim.com or call 020 7562 3386.

Silver as well as gold in your fund...

Although predominantly focused upon Gold your Fund can, and does, hold a materially weighting in Silver (up to 20% of the value of the Fund). Looking forward into 2011 we are very bullish in regards to the price of Silver and therefore have over the past couple of months increased our exposure to the metal via what we reckon is the purest play on the price of Silver available to investors. **Silver Wheaton**, listed on the TSX, is capitalised at roughly £7.6 billion making it the largest company that your Fund invests in.

Although small to medium cap mining focused we hold this quality company within the Fund for two main reasons; one that it simply is the best leveraged play on the price of Silver available, and two; that it provides incredible liquidity to the Fund.

Established in 2004 Silver Wheaton currently boasts 15 long term Silver purchase agreements with base metal miners who produce Silver as a by product giving the company the right to be able to buy all or a portion of its partner's Silver production at a fixed price of \$3.9/oz. This provides a quality leveraged play on the appreciation of the price of Silver. We reckon that Silver will push towards the \$50/oz level so we expect the company to return some serious profits in the next couple of years following on from record production and earnings recorded for Q3 2010.

The company derives its Silver from World class assets like Gold Cor's Penasquito mine, Mexico, and Barrick's Pascua-Lama project between the border of Chile and Argentina. But crucially does not own any mines itself, materially limiting operational

mining risks and expenses. Full year 2010 results, expected on 3 March 2011, are likely to show record production of 24 million ounces of Silver, forecast to increase to approximately 40 million ounces by 2013 with no ongoing capital expenditure needed. At this point we expect the company to be delivering Silver at \$50/oz implying annualised cash flow of roughly £1.2 billion. Along with the Silver contracts the company also has agreements to purchase Gold at a fixed price of \$300/oz, and with our obvious views on Gold (that it will shoot past \$1,700/oz in 2011) there is serious operationally geared upside from this point onwards as 20,000 ounces of Gold are expected to be produced for the Full year 2010. Needless to say with the company already producing a large amount of Silver from high quality mines in politically stable regions, with a material uplift in production expected in the next 2 years, we reckon that at just under 6 times forecast cash flow (neglecting any input from Gold sales) Silver Wheaton remains cheap.

Moving on, we tend to very rarely invest in new holdings within the Fund but made an exception in regards to the TSX-ventures (the junior market, comparable with LSE's AIM) listed exploration stage company **Kootenay Gold Inc.** We continue to monitor our portfolios risk levels and are in light of this wary of exploration companies and in the majority of cases prefer solid cash generative producers over the generally high risk explorers. However, we do invest in early stage companies where we see tremendous upside, Kootenay is one of those. Currently capitalised at £25.3 million, as of 30 September 2010 the company had Net Current Assets of \$7.2 million (£4.5 million) and more recently raised a further \$6 million (£3.7 million) via a non brokered fund raise (so has little or no expenses to pay). This is where we subscribed for our shares. The company therefore has, as we see it, plenty of cash to move forward with further dilution in the short to medium term unlikely.

The company's focus is the exploration and development of mineral license areas in British Colombia, Canada, and the Sierra Madre region of Mexico via JV agreements with the ultimate aim of a future sale or moving the asset into mineral production. The company currently has 4 sets of drill results outstanding at its Opeley Property, Jumping Josephine Gold Property, Deer Creek and Santa Lucia licenses but by far the most promising of the company's assets is its flagship Promontorio Silver Mine. Located in the mineral rich Sierra Madre region of Mexico, which historically is responsible for the discoveries of 520 million ounces of Silver and 15 million ounces of Gold, the company has already completed more than 30,000 metres of drilling to define a NI 43-101 compliant resource of 20 million ounces of Silver equivalents. 90% of the resource is within the Indicated category with the initial deposit open in three directions along a 1km mineralised trend. The management are confident that the resource has the potential to double with the return of the next 10,000m of drill results which should be due Q1/2 of 2011. At \$15 Silver it is estimated that the current defined mineral resource has a recoverable metal value of \$320 million, or £200 million, drastically highlighting the undemanding nature of the current £25.3 million market cap.

The management has a reputable track record with a history of delivery and with even the current defined resource at the Promontorio mine we reckon this company is cheap. The resource is defined on only a proportion of the mineralised trend so we expect a resource upgrade shortly. Furthermore, although we currently attribute very little real value to the other exploration targets mentioned above there is most obviously the huge potential upside from here onward in regards to the other prospective license areas. Longer term we would expect the company to look to bring the Promontorio mine into production with the cash generated from operations then being used to further exploration on the surrounding targets and the company's other prospective license areas.

And from Silver to Gold, **Vatukoula Gold Mines** is currently the second largest holding within your Fund. Shares in the company have slipped back by roughly 20% following an admittedly disappointing recent production update. We have however been buying up loads more of the company as of late. The extract below appeared on T1ps.com on 19 January 2011. Little more needs to be said...

Vatukoula (VGM) is down at 160p today - market cap £130 million. This is the second largest holding in the t1ps Gold Fund. It is also one of the cheapest stocks in the fund. So we have bought more. A lot more. And here is why:

The recent trading statement was a disappointment. There is no disguising that. But let us look beyond the second quarter of this year (ended August 31st). The company has a projected FY output of 80,000 oz and says that by the fourth quarter it will be producing at an annualised rate of 100,000 oz - the implied production rate is thus 25,000 oz. in Q3 and Q4 at a cash cost of \$655 oz.

The company has an official mine life of 12 years. But since the mine has been producing for 70 years and the resource has never been higher I safely predict we have at least 20 years output. But I shall work on the assumption that it is just 12 years.

I also normally work on the assumption that the gold price will (at least) maintain its real term value of today's \$1370 going forward. But I am now going to be cautious and use a \$1000 gold price over 12 years just to make my point on how dirt cheap this stock is.

I will assume that the average grade is 6.5g/t which is the long run average. Now I know that exploration work on the site has located higher grades and some folk reckon that grades could go to 7.5g/t. If that happens the current plant will produce 125,000

oz. and cash costs fall by c\$150 oz.

And finally I assume that power costs are unchanged. But I know - as do you - that work is underway on a biomass power generation plant which could cut costs by anywhere between \$100 and \$200 oz.

Ok so base case valuation. I simply run a DCF model using a standard 10% discount rate and I come up with a valuation (based on \$1000 gold, 100,000 oz. over 12 years at a 6.5g/t grade with no power savings) of c240p per share. That is 50% upside from here. The variables (where I use a slightly higher discount rate) are as follows:

Every \$100 on the gold price which you use is an additional 40p per share.
Assume lower case power savings that is 40p per share - double that for upper case
Assume grades go up to 7.5g/t and that adds 160p to DCF valuation.

So even on a \$1300 gold price with lower cost savings and 7g/t the DCF valuation should be pushing 500p per share - i.e. upside of well over 200%.

Right now no-one seems to love Vatukoula. The big funds are not selling but I know that some PCB/s/private clients are selling in a bit of a blind panic. Volumes are not great so the share price could turn on a sixpence. I really do not care when that happens (when not if) as we just take the view that this is a good chance to buy some more. As such we have done that in spades once again today. The t1ps stance is **strong buy**.

And finally back to Silver: Salman Partners Research initiated its coverage on the TSX listed Great Panther Silver with a BUY recommendation and 12 month target price of \$3 (currently \$2.23). We are ahead of the crowd here and have been buying a good deal of shares over the past few months. Attached below is Salman Partners's note

GREAT PANTHER SILVER LTD.

(TSX: GPR; C\$2.19)

*Recommendation BUY
12-Month Target Cdn\$3.00*

Junior Silver Producer with High Leverage to Growth - Initiating with a BUY

- *Great Panther Silver Ltd. is a junior silver producer with two operating mines in Mexico: Guanajuato and Topia, with no royalties. The company's strategy continues to be to focus on assets that have the ability to reach production in the near-term and subsequently use the proceeds from the operation to fund further exploration, development at the assets and further acquisition activities. In late 2008/early 2009, Great Panther's management made significant changes at its operating mines that have driven down total cash costs from as high as an estimated US\$14.39 per ounce (Q3 2008) to roughly US\$6.76 per ounce in Q3 2010.*
- *Three-year Organic Growth Strategy: A new three-year organic growth strategy was implemented in 2010 with a target of reaching silver equivalent production of 3.8 million ounces at a total cash cost of US\$4/oz, net of by-products in 2012 and building a resource base of at least 40 million silver equivalent ounces. Given the exploration success of the first year, the company recently announced that it increased its exploration budget for 2011 by more than twofold, to roughly 60,000 meters.*
- *Valuation: We use a methodology of applying a 1.5x multiple to mining assets and subsequently add back non-mining assets at face value to arrive at our 12-month target price of Cdn\$3.00 per share. Given the more than 30% return to our target price from current levels, our bullish outlook on precious metals, the company's strong liquidity position and attractive valuation, we are initiating coverage on Great Panther Silver with a BUY recommendation.*

Ross Jones and James Faulkner

If you have any questions about investing in the SF t1ps Smaller Companies Gold Fund or if you want a simplified prospectus and an application form please visit **our website at www.t1psim.com or email goldfund@t1psim.com**